



**Auditor of State
Betty Montgomery**

VILLAGE OF HIGHLAND
HIGHLAND COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Highland
Highland County
P.O. Box 158
Highland, Ohio 45132

To the Village Council:

We have audited the accompanying financial statements of the Village of Highland, Highland County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2003, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 30, 2003

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$7,092	\$0	\$0	\$7,092
Intergovernmental Receipts	25,694	10,764	27,500	63,958
Miscellaneous	583			583
Total Cash Receipts	<u>33,369</u>	<u>10,764</u>	<u>27,500</u>	<u>71,633</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	16,931	855		17,786
Public Health Services	321			321
Leisure Time Activities	9,883			9,883
Basic Utility Services	3,740			3,740
General Government	17,850			17,850
Debt Service:				
Principal Payments	1,950			1,950
Capital Outlay			37,675	37,675
Total Cash Disbursements	<u>50,675</u>	<u>855</u>	<u>37,675</u>	<u>89,205</u>
Total Receipts Over/(Under) Disbursements	(17,306)	9,909	(10,175)	(17,572)
Fund Cash Balances, January 1	<u>22,949</u>	<u>15,802</u>	<u>12,600</u>	<u>51,351</u>
Fund Cash Balances, December 31	<u><u>\$5,643</u></u>	<u><u>\$25,711</u></u>	<u><u>\$2,425</u></u>	<u><u>\$33,779</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$6,678	\$0	\$0	\$6,678
Intergovernmental Receipts	26,980	9,872	22,400	59,252
Miscellaneous	1,093	50		1,143
Total Cash Receipts	<u>34,751</u>	<u>9,922</u>	<u>22,400</u>	<u>67,073</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	9,370	1,446		10,816
Public Health Services	304			304
Leisure Time Activities	2,687			2,687
Basic Utility Services	4,523	530		5,053
General Government	23,384			23,384
Debt Service:				
Principal Payments	1,950			1,950
Capital Outlay		12,242	68,800	81,042
Total Cash Disbursements	<u>42,218</u>	<u>14,218</u>	<u>68,800</u>	<u>125,236</u>
Total Receipts Under Disbursements	<u>(7,467)</u>	<u>(4,296)</u>	<u>(46,400)</u>	<u>(58,163)</u>
Other Financing Receipts and (Disbursements):				
Debt Proceeds			59,000	59,000
Other Financing Sources	279			279
Other Financing Uses		(279)		(279)
Total Other Financing Receipts/(Disbursements)	<u>279</u>	<u>(279)</u>	<u>59,000</u>	<u>59,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,188)	(4,575)	12,600	837
Fund Cash Balances, January 1	<u>30,137</u>	<u>20,377</u>	<u>0</u>	<u>50,514</u>
Fund Cash Balances, December 31	<u>\$22,949</u>	<u>\$15,802</u>	<u>\$12,600</u>	<u>\$51,351</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$7,400</u>	<u>\$7,400</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Highland, Highland County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides park operations. The Village contracts with the Highland County Sheriff's department to provide security of persons and property.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash Deposits

The Clerk deposits all available funds of the Village. During fiscal years 2002 and 2001, the Village's funds were deposited in a checking account with a local commercial bank.

D. Fund Accounting

The Village uses fund accounting to segregate cash deposits that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Highway Fund

This fund receives gasoline tax and motor vehicle tax money for maintaining and repairing Village highways.

Permissive Motor Vehicle License Tax Fund

This fund receives proceeds from taxes levied on all motor vehicle license sold in the Village for road maintenance and repairs.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

Ohio Water Development Authority Fund

This fund receives proceeds of a note from OWDA for a sewer project. The proceeds are being used to construct a new storm sewer drain.

Community Development Block Grant

This fund receives monies from the Highland County Community Development Block Grant and are being used to construct a community park building.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH DEPOSITS

The Village maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash deposits at December 31 was as follows:

	2002	2001
Demand deposits	\$33,779	\$51,351

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$78,492	\$33,369	(\$45,123)
Special Revenue	27,891	10,764	(17,127)
Capital Projects	5,000	27,500	22,500
Total	\$111,383	\$71,633	(\$39,750)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$84,280	\$50,675	\$33,605
Special Revenue	31,100	855	30,245
Capital Projects	24,900	37,675	(12,775)
Total	\$140,280	\$89,205	\$51,075

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,155	\$35,030	(\$7,125)
Special Revenue	20,302	9,922	(10,380)
Capital Projects	88,900	81,400	(7,500)
Total	\$151,357	\$126,352	(\$25,005)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$71,140	\$42,218	\$28,922
Special Revenue	23,000	14,497	8,503
Capital Projects	88,900	68,800	20,100
Total	\$183,040	\$125,515	\$57,525

The Village failed to have expenditures certified prior to purchase and failed to encumber expenditures contrary to Ohio Revised Code 5705.41(D). Expenditures exceeded appropriations in the OWDA Fund in 2001 by \$14,800 contrary to Ohio Revised Code 5705.41(B) and in the CDBG Fund in 2002 by \$27,500.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$20,000	0.00%
Ohio Public Works Commission Loan	35,100	0.00%
Total	\$55,100	

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT (Continued)

In 2001 the Ohio Water Development Authority (OWDA) approved up to \$25,000 in loans to conduct a feasibility study for a new Wastewater Treatment Plant that was mandated by the Ohio Environmental Protection Agency. As of December 31, 2002 only \$20,000 was drawn down on this loan from OWDA. The scheduled payment amount below assumes that \$25,000 will be borrowed and repaid over a 10 year time period, in annual installments of \$2,500. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed.

The Ohio Public Works Commission (OPWC) loan relates to a Storm Sewer Replacement Project. The OPWC loan was originally obtained in 2000 for \$39,000 to be repaid, interest free, over a 20 year period in the amount of \$1,950 per year.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	<u>OWDA Loan</u>	<u>OPWC Loan</u>
2003	\$2,500	\$975
2004	2,500	1,950
2005	2,500	1,950
2006	2,500	1,950
2007	2,500	1,950
2008-2012	12,500	9,750
2013-2017		9,750
2018-2021		6,825
Total	<u>\$25,000</u>	<u>\$35,100</u>

6. RETIREMENT SYSTEMS

During 2001, certain Village employees belonged to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001. The Village has paid all contributions required through December 31, 2001.

No employees were PERS members in 2002.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Highland
Highland County
P.O. Box 158
Highland, Ohio 45132

To the Village Council:

We have audited the accompanying financial statements of the Village of Highland, Highland County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-001.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated June 30, 2003.

This report is intended solely for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 30, 2003

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Material Noncompliance – Reportable Condition

Ohio Rev. Code, Section 5705.41(D), provides that a subdivision or taxing unit shall not make any contract or order involving the disbursement of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment.

This Section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- B. Amounts of less than \$1,000 for villages, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Contrary to the above, of the expenditures tested, 83% had an invoice dated prior to the purchase order date and no “then and now” certificate was issued.

This procedure is not only required by Ohio law, but it is also a key control in the disbursement process. Without proper certification of funds, disbursements could be made without adequate current resources being available or disbursements could be made in excess of authorized appropriations. We recommend that prior certifications be done for all disbursements. In instances when prior certifications are not practical, “then and now” certifications should be made.

FINDING NUMBER 2002-002

Material Noncompliance

Ohio Rev. Code, Section 5705.41(B), prohibits expenditures in excess of appropriations. The Village did not appropriate for the OWDA Fund in 2001 or the CDBG Fund in 2002.

Fund	Appropriations	Expenditures	Variance
OWDA	\$ -	\$ 14,800	\$ (14,800)
CDBG	\$ -	\$ 27,500	\$ (27,500)

The Clerk should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

VILLAGE OF HIGHLAND
HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30436-001	Ohio Rev. Code, Section 5705.41(D), expenditures were not properly encumbered or certified.	No	Not corrected. Reissued as finding number 2002-001



**Auditor of State
Betty Montgomery**

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VILLAGE OF HIGHLAND

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 29, 2003**